MT LEGISLATIVE HISTORY

Chapter 28 19 75

Bill H _____ S 150 Original bill & hist. ✓C

H. Committee on Bus & Ind. S. Committee on Bus. & Ind.

Hearing Date(s) 2-17 ___C Hearing Date(s) 1-31 ___C

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Date Out 2-19 ___C Date out 2-3 ___C

Did this bill originate in an interim committee? ___Yes ___No

Committee _____ Report _____

LC 0386

Senate BILL NO. 150

INTRODUCED BY Estle Ryan Norman Blaylock Brown

A BILL FOR AN ACT ENTITLED: "AN ACT TO PERMIT THE PUBLIC SERVICE COMMISSION TO VALUE PUBLIC UTILITY PROPERTY AT ANY LEVEL WHICH DOES NOT EXCEED THE ORIGINAL COST OF THE PROPERTY LESS DEPRECIATION; AMENDING SECTION 70-106, R.C.M. 1947."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 70-106, R.C.M. 1947, is amended to read as follows:

"70-106. Power of commission to ascertain property values. The commission may, in its discretion, investigate and ascertain the value of the property of every public utility actually used and useful for the convenience of the public. The commission is not bound to accept or use any particular value in determining rates, provided that if any value is used, such value may not exceed the original cost of the property less depreciation. In making such investigation the commission may avail itself of all information contained in the assessment rolls of various counties, and the public records of the various branches of the state government, or any other information obtainable, and the commission may at any time of its own initiative make a revaluation of such property."

-End-

44th LEGISLATIVE SESSION

COMMITTEE ON Business and Industry

BILL NO.	ENTERED COMM.	DATE CONSIDERED	OUT OF COMM.	DO PASS DATE	DO NOT PASS DATE	DO PASS AS AMEND. DATE	BE CONCURRED IN DATE	BE CONC. IN AS AMENDED DATE	BE NOT CONCURRED IN DATE
SB 1	1/6/75	1/13/75	1/22/75			1/22/75			
SB 7	1/6/75	1/17/75	1/2/75			1/29/75			
SB 69	1/22/75	1/29/75	1/29/75			1/29/75			
SB 98	1/11/75	1/24/74	1/24/74		NO	RECOMMENDATION			
SB 108	1/11/75	1/27/75	2/3/75			2/3/75			
SB 109	1/11/75	1/27/75	2/14/75		2/14/75				
SB 117	1/18/75	2/3/75	2/14/75			2/14/75			
SB 142	1/21/75	2/10/75	2/14/75		2/14/75				
SB 150	1/21/75	1/31/75	2/3/75	2/3/75					
SB 151	1/21/75	2/17/75	2/24/75	2/24/75					
SB 164	1/22/75	1/29/75	1/29/75			1/29/75			
SB 215	1/24/75	2/5/75	2/3/75	2/3/75					
SB 234	1/27/75	2/19/75	2/24/75			2/24/75			
SB 235	1/27/75	2/19/75	2/24/75			2/24/75			
SB 238	1/27/75	2/19/75	2/24/75	2/24/75					
SB 258	1/27/75	2/7/75	2/12/75		2/12/75				
SB 284	1/27/75	2/7/75	2/14/75		2/14/75				

(Separate sheet for Senate, House Bills, and Resolutions)

January 31, 1975

MINUTES OF THE MEETING

BUSINESS AND INDUSTRY COMMITTEE

MONTANA STATE SENATE

The meeting of the Business and Industry Committee was called to order by Chairman Regan on the above date at 11:00 a.m. in Room 404 of the State Capitol Building. The meeting was called to discuss Senate Bill 150 an act entitled: "An Act To Permit The Public Service Commission To Value Public Utility Property at Any Level Which Does Not Exceed The Original Cost of The Property Less Depreciation; Amending Section 70-106 R.C.M. 1947." and House Bill 36 an act entitled: "An Act To Amend Section 62-716, R.C.M. 1947, To Allow Cash As Well As Non-Cash Awards as Prizes In Bingo Games."

ROLL CALL: All members of the Committee were present

Chairman Regan introduced Representative Wes Teague, Chief Sponsor of House Bill 36, who presented the bill. Representative Teague stated that this is a gambling bill to change an act involving bingo. They are having problems getting people to bingo games because many of people are not willing to play for merchandise. They would like to also include cash prizes as well as merchandise. He added that many of people who play bingo are elderly people and would benefit more from cash prizes than from merchandise.

Bill Parker, Billings, handles bingo equipment. It was difficult this past year to get people interested in the game. They did not want to get involved with merchandise. Money is easier to keep track of.

There being no further opponents or proponents Chairman Regan opened the meeting for questions.

Senator Devine asked Representative Teague if there had been any thought to a black-out game.

Representative Teague replied that they had thought about this and there are some bills comming in with relation to that. He felt that an effective date should be added to the bill otherwise they would have to wait until July 1.

Chairman Regan asked if Representative Teague would have any objection if they amend the bill to say a non-profit organization.

Representative Teague was neutral on this issue.

Chairman Regan then introduced Senator Towe, Chief Sponsor of Senate Bill 150, who presented the bill. Senator Towe stated that this is a bill to regulate utility companies in Montana. Under the present

law they are guaranteed a profit. He felt that what the Public Service Commission must determine is what the profit should be. They should look at the value of the company. That is the subject of the bill. They are required by law to use a value that is termed the Fair Value System. It is a combination of values most important of which is the replacement value. Senator Towe then handed out copies of the question of the value of their investment. Attached. The return should be based on original cost less depreciation. If this reduction is passed it will mean an 11% reduction to customers. This could increase from 6.48% to 9.37%. Twenty-one states have listed the fair value system. Only 11 states including Montana still hold to this out-of-date system. In 1972 Missoula paid 18.45%, Spokane paid 11.50%, and Washington paid 9.60%. The effect has been to make Montana Power the most powerful company in the nation. In 1972 the return on stock to Montana Power was 16.1%. Take net income after taxes it was 21.77% in 1972. In 1971 it was 22.67%. The law must be changed to give them the tools to do the job adequately. The same thing applies to small companies with the only difference being that the figures are smaller. This law simply says that the determination must be based on figures we all understand. It means to the people that should we allow Montana Power Company to receive 30 million dollars a year or 20 million dollars a year after taxes. Senator Towe then introduced Mr. Gilfeather.

Pat Gilfeather, Commissioner, stated that it would be an advantage to the people of Montana and utilities to have this bill in effect. It would limit a company if we say that this is the rate we allow and this is the rate you must pay.

Walter Kanel talked about the advantages and disadvantages of the bill. One advantage would be that the cost of regulation might be reduced. Regulation is a substitute for competition. Fair Value is a law and difficult to establish.

Robert McTaggert stated that if you do not change the utility valuations you are going to have to staff the commission with more people. There is no way with the small staff that we have, that we could come up with a fair value in a court case.

Bryant Hatch, FAIR, stated that it is our opinion that utility companies should not be allowed to infiltrate their costs from the people of Montana. They urge a do pass on this bill.

Steve Goldstein, Montana Low Income Corporation, felt that the aged, handica and single parent would benefit from this bill.

Ron Davis, Director of Just-Us, Incorporated was in support of SB 150. He felt this was an effective way of correcting this injustice.

Jim Murry prepared statement attached.

Steve Gunderson, Montana Farmers Union was strongly in support of the bill and its' changes. Attached prepared statement.

Bruce Nelson, Montana Students Lobby, was in support of SB 150. The bill would mean a savings to the University of $4,000 which would buy 500 books for the library which is desperately needed.

Robin Tawney, Enviornmental Inflation Center, supported SB 150.

James Jacobson, Missoula County Labor, supported the bill for the people he represented.

Ian Davidson, D.A. Davidson Company, was opposed to the bill. Prepared statement attached. He further stated that Senator Towe used 1971 and 1972 figures. In a report on 88 companies in the U.S., 24 of them had a much higher return than Montana Power.

Buck Hanes, Lincoln-Helena Telephone, believed that SB 150 was the height of injustice. We are a small company so we have to keep adding new equipment but can not without money. If this bill becomes a law our company will cease. Recommend the bill does not pass.

Geremey Thane, Valley Water Company, was opposed to SB 150. Prepared statement attached.

Bob Corette, Montana Power Company, was opposed to SB 150. Prepared statement attached. He further stated that there is nothing in the law that guarantees them a profit like Senator Towe suggested. All the commission states is that you can earn 6.48% but it does not guarantee that you will earn it.

Jack Buckley, Mountain Bell, opposed SB 150. The concept of the guarantee was knew to him.

Bob McPhillips, Kevin Gas Distribution Company, opposed the bill. Prepared statement attached.

Bob Creek, Great Falls Gas Company, opposed SB 150.

Lester Loble II, Montana-Dakota Utilities, was opposed to the bill. He stated that the shares are less than book value. They have to sell a large amount of shares to get any profit.

Commissioner Monahan stated that he spoke with Tony McCall of Erving Tract Company. Mr. McCall told him that they have had no trouble with going from the fair value system to the amount system. Commissoner Monahan felt that utilities should be for the bill instead of fighting it.

Senator Towe then gave a rebuttal. He did not understand why Montanans were having such a difficult time with this bill if other states have adopted it without difficulty. He stated that Mr. Davidson talked about material. There were only 6 companies that had a larger tax margin than Montana Power. Mr. Thane never did say how this would harm him. You want return on property not capital. Senator Towe then cited section 70-105 R.C.M. 1974, on guarantees.

He reminded Mr. Buckley that it was his company that took this section to court. The position he took in court was that the law guarantees him a profit. In response to Mr. Corrette and his statement that these figures are antiquated, Senator Towe referred to the statement he made earlier that with this system the rates may not change.

Senator Regan then opened the meeting for questions and stated that Senator Neil Lynch would be allowed to ask questions even though he is not a member of the Committee.

Senator Lynch asked Mr. Bollinger why we did not turn the whole thing over to them. They work with it day and night and the decision of what system they use is up to them.

Gene Bollinger, Public Service Commission, stated that he had no quarrel with that. The reason that they favor the bill is that they want to get the job done with the limited staff they have.

Senator Rosell asked Mr. Thane how he felt about it.

Mr. Thane stated that he had no quarrel with telling the people what the rates are.

ADJOURN: There being no further business Chairman Regan adjourned the meeting at 1:00 p.m.

Pat Regan, Chairman

SB 150

RATE BASE

The Public Service Commission found that the Montana Power Company should receive 6.48% on their investment (after taxes). The question is -- what is the value of their investment (dams, power plants, etc)?

ELECTRIC PROPERTY -- 1972

Original Cost	$288,669,642
Original Cost less Depreciation	$228,459,705 x 6.48% = $14,804,188.56
Reproduction (Replacement) Cost New	$571,721,673
Reproduction Cost New less Depreciation	$468,380,598 x 6.48% = $30,351,062.88

The Montana Supreme Court has said under the present statute the cost of reproduction new less depreciation must be the dominant factor in determining "fair value." Hence the Public Service Commission found:

Fair Value $342,860,000 x 6.48% = $22,217,328.00

Thus, under existing law, the Public Service Commission awarded a rate of return on $54,190,358 that they have never invested:

Value found by the Public Service Commission	=	$342,860,000
Original Cost to Montana Power Company	=	288,669,642
		$ 54,190,358

EFFECTS ON RATES -- MONTANA POWER COMPANY

Electric rates would be reduced by 11.02%
Gas rates would be reduced by 8.31%

Such a reduction would not be automatic. Hearings would have to be held first, and it is conceivable the Public Service Commission would not award any decrease. To do so, however, they would have to increase the rate of return by over 50%.

ELECTRICITY -- 6.48% to 9.72% ---------- Gas -- 6.6% to 10.18%

Because of this flexibility no one will get hurt. But the original cost less depreciation system (HB 121) has the following advantages:

1) We will know what the true rate is.
   -- The utilities won't be able to hide behind a bunch of artificial values that can't be verified.
2) Rate cases will be simplified.
   -- It is easy to determine how many dollars a utility actually spent on a plant. It is difficult to determine what it would cost to replace or rebuild that same plant today.
   -- Long hours of testimony by "experts" on the value of a plant would be avoided.
3) As the rate of return goes up, the people would demand an explanation from the Public Service Commission.
   -- It is easy to justify a low rate of return.
   -- It is hard to justify a rate increase based on actual cost (investment) and a high rate of return. (It can be done if necessary).

DON'T LET THE UTILITIES CLOUD THE ISSUE --

-- In rate hearings, as in the legislature, the more complicated the problem, the easier it is for the utilities to control the situation.

Most states have abandoned the so-called "fair value" system since the U.S. Supreme Court gave clearance for such action in 1944. Montana is one of only 11 states to cling to the old system. 30 states and the District of Columbia use original cost less depreciation as proposed by SB 150.

The Montana Power Company has the highest profits of all utilities in the nation.

a) Compare MPCo. with the other 78 companies with gross revenue in excess of $2,500,000 annually: (figures from Legislative Council Study - Report No. 46)

1) Net profit as a percent of the electrical plant (1971).
Montana Power Co. - 11.33% - 1st out of 79.
Average - 7.59%

2) Rate of return on common stock equity (earnings available for dividend)
Montana Power Co. - 17.5 % - 2nd out of 79.
Average - 12.13 %

3) Net income (after taxes) as a percent of gross revenues.
Montana Power Co. - 22.67% - 1st out of 79.

b) During the first 6 months of 1972 the Montana Power Company kept 24¢ out of each revenue dollar collected as a net profit.

c) "MPC says earnings up" - Billings Gazette headline
January 30, 1973.

The question is NOT one of whether the utilities can make a profit. The only question is "how much profit?"

-- Unlike private enterprise, the law guarantees them a profit.

-- The question on HB 121 is:
whether the Montana Power Company should have $30 million ($29,879,600) profit or $20 million ($20,033,371) profit.

-- whether Montana Dakota Utilities should have $4 million ($3,979,286) profit or $2.3 million ($2,335,295) profit.
(figures from Company exhibits in last rate hearing)

Assuming the full savings is passed on by the Public Service Company the total savings to the power consumers would be $ 11,483,420. Which is equivalent to a 26.33% reduction in Montana's Personal Income Tax.

Distributed by
Thomas E. Towe
[redacted]

RESOLVED, that we, the members of Local 2609, American Federation of Government Employees, are unalterably opposed to the enactment of either HB 618 or HB 630 or any other proposals embodying the same intent,

BE IT FURTHER RESOLVED, that we request the Montana State AFL-CIO to assist in every possible way in securing the defeat of discriminatory taxation such as is proposed under the two House Bills now before the Legislative Assembly.

Submitted by:
Local 2609, AFGE
M.A.F.B.
Great Falls, Montana

Adopted by Convention Action

RESOLUTION NO. 13

Support Public Power Legislation

WHEREAS, private utility companies are natural monopolies not subject to the control of competitive market forces, and

WHEREAS, regulation of private utility companies by government administrative agencies has uniformly failed to protect consumers against the economic power of private monopoly, and

WHEREAS, private utility companies possess and exploit great political power, financed by ratepayers and used against their interests, and

WHEREAS, Montana private utility companies are among the most profitable in the nation, notoriously ineffectively regulated, and politically powerful against the interests of the people who make up the vast majority of the labor movement's membership, and

WHEREAS, public ownership has consistently proven capable of supplying consumers of utility services at substantially lower rates, as in the Tennessee Valley region (TVA), Washington and Oregon (Public Utility Districts), and in thousands of cities (Municipals) in almost all states but Montana, and

WHEREAS, Montana law now protects the collective bargaining rights of employees of public agencies and enterprises, thus eliminating any possible objections of unions in private utility companies to public ownership, now therefore

BE IT RESOLVED that the Montana AFL-CIO supports legislation to establish and provide for the financing of Public Utility Districts, Municipal Utility Agencies, and a State Utility Authority.

Submitted by the University Teachers Union, Local 497, American Federation of Teachers, John F. Lawry, President.

Adopted by Convention Action

RESOLUTION NO. 14

Substitute "Original Cost" for "Fair Value" in Valuation of Private Utility Investment for Ratemaking Purposes

WHEREAS, the "Fair Value" rule, by which the Montana Public Service Commission determines the rate bases of regulated utility companies, was declared obsolete by the U.S. Supreme Court 30 years ago, and

WHEREAS, the so-called "Fair Value" rule is unfair to consumers and serves to determine no rational, understandable, or logically defensible value of utility company investment, and

WHEREAS, the Montana Legislature through many sessions has failed to modify the "Fair Value" rule, its latest failure occurring in the 1973 session when HB121 passed the House, but was killed by the Senate, and

WHEREAS, HB 121 would have abolished the "Fair Value" rule and substituted for it an "Original Cost" rule which would make possible rational, understandable, and logically defensible valuation of utility company investment and

WHEREAS, an Ad Hoc citizens' committee to put HB 121 (or comparable legislation) to a vote of the people through an initiative in the 1974 elections has been is being formed now therefore

BE IT RESOLVED that the Montana AFL-CIO is committed to the support of an initiative campaign to accomplish the enactment of a law abolishing the "Fair Value" rule in favor of the "Original Cost" rule of utility base rate determination, and

BE IT FURTHER RESOLVED that the Montana AFL-CIO will participate actively in an ad hoc organization dedicated to the accomplishment of that objective in 1974.

Submitted by the University Teachers Union Local 497, American Federation of Teachers, John F. Lawry, President.

Adopted as amended by Convention Action

RESOLUTION NO. 15

No-Fault Auto Insurance

WHEREAS, the ever increasing cost of automobile insurance falls most heavily upon the wage worker category, many of them either to forego such protection or to sacrifice other living necessities and,

WHEREAS, some thirty percent of the premium dollar is appropriated by lawyers and investigators with the legal profession skimming off one and one tenth billion dollars ($1,100,000,000.00 annually) and,

WHEREAS, time has come for reform to halt the increasing premiums, and end arbitrary cancellations of policies and the need for long and costly litigation,

NOW THEREFORE BE IT RESOLVED that this Seventeenth Annual Convention of the Montana State AFL-CIO go on record in support of, and work for the passage of legislation establishing no-fault auto insurance, both on the National and on the State level.

Submitted by:
Cascade County Trades & Labor Assembly
Vincent J. Bosh, President
Joe Meyer, Secretary

Adopted by Convention Action

RESOLUTION NO. 16

Cancellation of Auto Insurance

WHEREAS, Automobile insurance and casualty companies are prone to cancel policies whenever a liability occurs or they feel the insured is a bad risk and,

WHEREAS, this cancellation action takes place without warning or reason given the insured,

NOW THEREFORE BE IT RESOLVED, that this Seventeenth Annual Convention of the Montana State AFL-CIO be instructed to work to have legislation introduced prohibiting such unwarranted cancellations.

Submitted by:
Cascade County Trades & Labor Assembly
Vincent J. Bosh, President
Joe Meyer, Secretary

Adopted by Convention Action

RESOLUTION NO. 17

Unused Labor Costs, Highway Contracts

WHEREAS, the Montana State Department of Highways lets bids to contractors to build highways in the State of Montana and,

WHEREAS, the contractors' bids contain the total labor costs for the construction of highways and

WHEREAS, the construction Industry Stabilization Council has prevented the wage rates negotiated to be put in effect,

NOW, THEREFORE BE IT RESOLVED that the Montana State AFL-CIO support legislation that requires

MONTANA STATE SENATE

Business and Industry Committee

Hearing -- Senate Bill 150

Friday, January 31, 1975

Testimony by

Clyde Jarvis, President
MONTANA FARMERS UNION
750 6th St. S.W., Great Falls, Montana

I am Clyde Jarvis, president of the Montana Farmers Union, a statewide farm and ranch organization of approximately 8,000 family members, with headquarters in Great Falls.

Non only am I here today to speak for agriculture -- because our 8,000 members are all consumers and farmers and ranchers are the largest single group of consumers in the state -- but also I appear as a member of the board of directors to speak for the Consumer Affairs Council in this state.

Montana Farmers Union's interest in affairs of consumers is long-standing, as evidenced by our support and affiliation over the years with the Consumer Federation of America.

Our organization was represented at the first general meeting for consumers in Montana here at the Capitol building a few years ago and we were prime movers in the formation of the Consumer Affairs Council.

Speaking for both organizations, I strongly support Senate Bill 150 to permit the Public Service Commission to value public utility property at any level which does not exceed the original cost of the property less depreciation.

This measure could bring some rationality to utility rates that is desperately needed and definitely justified.

Not only are farmers and ranchers major consumers of power, but also 40 per cent of Montana's population is rural and therefore we have a great concern with the ever-growing disparity in energy costs.

A few years ago, I appeared before the Montana Public Service Commission to testify as the then president of the Consumer Affairs Council in what I described before that regulatory body as "a desperate attempt to provide some accumulated opposition to such proposals for utility rate increases" as the commission had before it at that time.

What has happened since is known to all of us -- despite the widely publicized and well-established profitability of the Montana Power Company, it has been granted substantial increases in rates.

I have spoken out for the Montana Farmers Union statewide and predicted, ". . . the consumers and taxpayers of Montana will not take anymore -- they've had it."

I view this hearing today on Senate Bill 150 as the beginning of the legislative action to confirm that prediction.

It is not only the cost to individual farmers and ranchers and homeowners of all types, but also the consumer-taxpayer responsibility to pay added bills for other public institutions, governmental units, schools, hospitals, people on welfare, and so on, which brings this statewide insistence for change in determining utility rate base.

Senate Bill 150 would put a stop to the notorious "fair value" situation and merely put Montana more in line with the systems presently used in 29 other states and the District of Columbia. I believe it is significant the overwhelming majority of those states switched to their methods from a situation similar to that existing in Montana at this time.

It also is noteworthy that utility profits have been significantly higher in Montana and the other 11 so-called "fair value" states.

And, Montanans apparently suffer disproportionately among such states For instance, evidence has been entered and testimony recorded in rate increase hearings, that the Montana Power Company, the principal utility in our state, consistently has the highest or one of the highest net profit levels of the hundreds of utility firms in the nation.

I believe that is because Montana Power Company enjoys the most profitable overcharging arrangement of any utility in the nation.

Senate Bill 150 has the potential to correct that inequity to the ratepayers of Montana and at the same time assure Montana utilities of the same fairness existing in the 29 other states and the District of Columbia which utilize procedures similar to what this measure proposes.

The Montana consumers and taxpayers whom you represent can only benefit by this legislation. They will be relieved of some of the overcharge in the rates they pay for power.

The bill before this committee today is justified and necessary. Montana and Montanans have been held in a colonial-type subservience by such monied corporate advocates as the utilities for a century.

I hope and believe that by your consideration and disposition of Senate Bill 150, I and other lobbyists and citizens of this state will be able to mark you as a "pro-people" Senate.

The farmers and ranchers of Montana and all other consumers and taxpayers have struggled vainly for years, with some small amount of expertise and an even smaller amount of funds to combat the inequity aimed at in Senate Bill 150.

We have appealed in vain to the regulatory agencies and the courts and today we return to you who write the laws to bring us justice.

To that end, I urge you to choose "people power" and not "company power" and give your resounding approval to Senate Bill 150 and to provide the impetus necessary to carry it through this session of the Legislature.

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January 30, 1975

Senate Business and Industry Committee
Helena, Montana

Reference: Senate Bills 150 and 151

Project Telephone Company opposes Senate Bills 150 and 151 in their entirety. Seventy-two thousand rural Montana telephone subscribers are served by Independent Mutual or Co-Op-type Companies. They would suffer poor service and curtailment of construction of upgraded service. Obsolete plant used as rate base would not furnish a rate of return to cope with today's inflationary economy. New plant build on today's economy costs several times more. Taxes under Senate Bill 151 added into the monthly recurring rates would be prohibitive. Thus, the old multi-party lines with eight to ten subscribers will remain. How would you like to share your phone with eight other people?

In 1959 through 1971, Project Telephone Company original plant cost per subscriber for a multi-party line was $652.00. 1974 through 1975 one-party upgraded service cost per subscriber will be $1,800 plus. It still costs so much to operate a telephone company and rewriting the laws does not change that fact so why add to State Government expense.

PROJECT TELEPHONE COMPANY

Joe L. Curtis
Warden, Montana

STATEMENT OF MOUNTAIN BELL'S POSITION ON SB 150

Senate Bill 150 proposes changing the present fair value rate base formula to a formula that would not exceed the original cost of the property less depreciation. Mountain Bell has opposed this in the past and continues to oppose for several very basic reasons.

1. The original cost depreciated formula would grossly understate the value of our property in Montana. To relate this to other factors used in every rate making formula, namely revenues and expenses, these are stated in terms of current dollars. On just that premise for a realistic result it seems logical that the property to which they are related be valued as well in terms of current dollars. Only through this process can we arrive at a fair and reasonable rate of return and compare it with a meaningful figure derived from the current market place. (To illustrate - a home that cost $5,000 in 1940 would conservatively be valued today at $15,000. In this case a 6% return on current fair value would be equivalent to 18% on original cost and be considered ridiculously high).

2. A utility or any business for that matter needs revenues sufficient to pay operating costs including depreciation, salaries, wages and taxes, interest on its debt and a reasonable return to its owners in the form of dividends. If the rate base were changed it merely means that the Public Service Commission will of necessity have to authorize a higher rate of return to be applied to a lower rate base. The total cost of doing business and therefore the revenue requirements haven't changed - it's simply a matter of how the earnings are measured.

Incidentally, I'd like to emphasize that the fair value concept should be applied consistently; that is in periods of deflation as well as inflation. For these reasons, Mountain Bell goes on record as opposing this legislation.

STATEMENT OF IAN B. DAVIDSON TO A MONTANA SENATE

COMMITTEE CONCERNING SENATE BILL #150

FRIDAY, JANUARY 31, 1975

My name is Ian B. Davidson, and I am President and Chairman of D. A. Davidson & Co., a Montana investment brokerage firm with offices in six Montana cities, and headquarters in Great Falls. My appearance before your committee today is to testify in opposition to Senate Bill #150 which directs the Montana Public Service Commission to use a rate base which may not exceed the original cost of property less depreciation.

In addition to being associated with D. A. Davidson & Co., I am a Director of Great Falls Gas Co., and a Director of First Federal Savings and Loan Association of Great Falls, and I have been associated with the University of Montana as a faculty member in the School of Business Administration, and as a past President and Trustee of the University of Montana Foundation. I also served on the Montana Post-Secondary Education Commission.

Let me state at the outset that I am not here to testify on behalf of Great Falls Gas Company, or on behalf of any particular utility operating in Montana. Because D. A. Davidson & Co. serves more investors than any other investment firm in Montana, we are vitally concerned about the financial health of corporations in our area, which includes several utilities under the jurisdiction of the Montana Public Service Commission. Anyone even remotely familiar with the investment process, and the investment business, would quickly recognize that the passage of Senate Bill #150 would further shatter investors confidence in the utility industry in general, and Montana public utilities in particular.

On February 26, 1973, just twenty-three months ago, I testified before this Senate Committee in opposition to House Bill #121, which was nearly identical in it's purpose to establish a rate base solely as the original cost of utility property less depreciation. Since that time, we have developed a well known "energy crisis", which has combined with a frightful inflation rate, to push the utility industry in the United States near a financial breakdown. Recently the problems in the utility industry have received substantial national recognition, with the January 20, 1975 Business Week issue devoted to utilities and calling them "the weak point in the energy future". ~~This~~ Argus research corporation, one of the nation's primary research companies, prepared a research report dated January 8, 1975 on the electric utility industry. Their research summary they say "almost any standard of financial measurement, 1974 ranks as the worst year experienced by this industry in the post-war era. Indeed, given the severity of the financial problems faced by the industry, it is a minor miracle that no major electric utility company defaulted on either interest payments or preferred dividends, and that only one major utility (Con Ed) was forced to skip a common stock dividend payment". They went on further to say

"Paramount among the factors accounting for the financial squeeze on the industry has been the difficulty of obtaining rate increases on a sufficiently timely basis to offset spiraling costs occasioned by "double-digit" inflation."

The need to raise money is more apparent in the utility industry than any other single industry operating in the world today. In 1974 electric utilities spent approximately $16.5 billion on new facilities, and they are estimated to spend approximately $15.5 billion in 1975. Of that $15.5 billion, $9 billion will have to be permanently financed through the sale of bonds, and approximately $3.5 billion is estimated to be raised through the sale of common and preferred stock, leaving $3 billion to be raised through internal financing from retained profits.

So you might say what difference does this make to Montana utilities, because their capital needs are relatively small in proportion to the national needs? However, you must realize that Montana utilities compete heavily in the national money market to raise funds for needed expansion and growth. In recent bond issues sold by the Montana Power Company, and common stock issues sold by Montana Power and Pacific Power and Light , we were the major participant in the Montana area. However, our participation, in addition to that of other Montana brokerage firms, represented less than 5% of the total amount of money raised by Montana Power and by Pacific Power and Light. This means, that most of the money raised by Montana utilities, comes from investors outside the State of Montana, simply because of the magnitude of the financing. This means that our Montana utilities are dependent upon outside investors to provide needed capital. Because the market place for money, is a highly competitive market, a rather sophisticated system of evaluating public utility securities has developed over the years. Each companies securities are rated with respect to their financial standing, and the nature of those ratings dramatically affect the cost of money for the utility. For example, on January 10, 1975 Detroit Edison sold $50 million worth of bonds and paid 12 3/4% for their money, and on January 15, 1975, Oklahoma Gas and Electric sold $60 million worth of bonds, and paid 9 1/8% for their money and on January 13, 1975, Boston Gas Company sold $25 million worth of bonds and paid 9 7/8% on those bonds. The difference in these interest rates is based upon the ratings of the bonds, with Detroit Edison carrying a "BAA" rating (fourth) with Boston Gas carrying a single "A" rating (third) and with Oklahoma Gas and Electric carrying a "AA" rating (second). Now simple mathematics can provide you with some rather dramatic figures, when you consider what a 3% differential means on $50 million for twenty years, the answer is a cool $30 million. That, ladies and gentlemen, is a very serious matter to a utility raising money in the national market place, and also a very serious matter to the customers of that utility paying increased costs because of the high interest rates charged their particular utility.

Certainly the most important single ingredient in the financial health of a utility relates to the regulation of that utility. To quote the Argus Research Report, they say "it became increasingly evident during 1974 that the actions of regulators would largely determine the financial viability of particular electric utilities". In my opinion, Senate Bill #150, merely confuses the utility regulatory environment in Montana, which would create severe problems to our Montana utilities, trying to raise money in national capital markets.

As I pointed out in my 1973 testimony, all investors want is a fair rate of return, and they care not whether that fair rate of return is based upon fair market value, replacement cost, or original cost less depreciation. A fair rate of return equals X-number of dollars in profits to operate a utility, and if that x-number of dollars is 7% of the fair market value or 30% of the original cost less depreciation, that fact is that x-number of dollars are needed. To assume that a adjustment in the rate base is automatically going to bring lower rates to consumers, is absolutely untrue. To illustrate how out of step Senate Bill #150 is with the current regulatory trends, I would like to quote to you a further research study prepared by Standard & Poor's Corporation dated January 6, 1975. "Despite strong consumer pressures, much of which built up during an important election year, a number of regulatory agencies did recognize the need for higher returns on equity, and for basing their decisions on current and projected (rather than historical) costs and plant investments." This trend as reported by Standard & Poor's, is exactly the opposite of what is being propsed by Senate Bill #150. In my opinion, Senate Bill #150 would do nothing but create uncertainty and confusion and in the end could spelll higher rates for the consumer rather than lower rates. Thank you for this opportunity to appear, if you have any questions, I will be happy to try to answer them.

WITNESS STATEMENT

Name JEREMY G. THANE Date 1-31-75

Address HAMILTON, MONT Support ? _____

Representing VALLEY WATER CO. Oppose ? X

Which Bill ? S.B. 150 Amend ? _____

Comments:

This bill would be disasterous for a small utility such as Valley Water Co. We serve approximately 1300 customers with a water system. The rate base as presently established barely provides enough for operation + maintenance of the system and we can't provide necessary expansion at today's costs.

The proposed bill does not recognize the effects of inflation. A system constructed with good dollars sometime ago can't survive on a rate base of original cost less depreciation in these days of dollars eroded by inflation.

Please leave prepared statement with the committee secretary.

[illegible] MAKE ON ITS STOCK.

STATEMENT OF BOB CORETTE REPRESENTING THE MONTANA POWER CO. IN OPPOSITION TO

S. B. 150 by Towe

This bill amends Section 70-106 which is the section allowing the Public Service Commission to set a fair value rate base for utilities. It will require the Commission to use a rate base no greater than original cost less depreciation.

No state has a law that says the value used may not exceed the original cost of the property less depreciation. Many states have original cost less depreciation statutes.

The fair value rate base of a utility is determined by the Public Service Commission as a judgment figure based on

1st) original cost. This is what it cost in the first instance to build the property.

2nd) original cost less depreciation. This is what it cost to build the property less the depreciation which has been charged against that property.

3rd) reproduction cost new less depreciation. This is an estimate of what it would cost to build the property today, less the depreciation which has occurred in the property.

4th) The Commission also considers other elements of value such as tax assessment.

An original cost rate base would just use the original cost of the property, less depreciation.

After determining the fair value of the property, the Public Service Commission then allows the Company a rate of return based on that fair value. In determining the percentage return to be allowed, it considers the rates of interest which the Company has to pay on its bonds and the percentage return which the Company must make on its stock.

Fair value is a reasonable and realistic basis for rates.

An example that shows you how a fair value system is different from an original cost less depreciation system would be a house you built for the purpose of renting, 20 years ago for $20,000. Today it would have depreciated 50% to a depreciated original cost value of $10,000. Now, if you rented this house 20 years ago on a return of 10%, you would have made $2,000 a year or $167 per month on your investment. Of course, this is not entirely accurate because you would have maintenance, etc. on the house but if you follow it through, at the end of 20 years you would have to accept approximately one-half the return, or $83 per month, and if you follow it further for a 40 year period, on an original cost less depreciation basis you would practically get nothing in return for your house, no matter what condition it was in.

But under the fair value system, you would get a rent based on a formula taking into consideration many factors including original cost less depreciation, which is exactly what happens in everyday life. There is nothing strange or unusual about that.

The main damage that would be done in Montana to the smaller utilities would be that they would have to be allowed a return of from 15% to 30% so that they could come out and we can't see any Commission allowing such a return.

The large utilities would be damaged because the law now is accepted and understood by the people who lend money to utilities, buy their securities, and buy debentures, bonds and stocks. A radical change in the law creates great doubt and uncertainty in

the minds of investors, and makes them reluctant to invest at all. This undoubtedly could have a serious adverse effect on every utility's ability to raise the money needed for new construction at reasonable interest rates.

In original cost less depreciation states the Commission allows a higher rate of return to companies so that they can stay in business and pay all of their necessary expenses and still have a fair return for their stockholders. Because this would be new in Montana, it is our opinion that it would be almost impossible to get the Commission to go to 9½% to 30% return on the property.

Fair value is by far the most reasonable rate base and particularly appropriate at this time when inflation is out of control due to continuous increases in all prices, wages and interest. Having a fair, reasonable and sound rate approach is most important to utility customers in Montana. Fair value not only assures a continuation of the capital investment but it reflects to some degree changing economic conditions, including inflation and deflation.

It is important to the consumer to have a sound utility that can give good service at reasonable rates. The rates in Montana for gas and electric service are about on an average with the rates in the United States. Some think changing the rate base would change the dollars needed by the utilities. If it does, your utilities will give an inadequate service to the consumer.

This is particularly true at this time when we have great inflation in all costs of the utility -- wages, materials, interest and

every cost that must be borne by a utility to give service. No matter how rates are figured, if the utility does not get the dollars it needs, it cannot give the kind of service the people of Montana want and deserve.

MONTANA STATE AFL-CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
Executive Secretary

ZIP CODE 59601

605 NORTH LAST CHANCE GULCH

REMARKS OF JAMES W. MURRY ON SENATE BILLS 150 AND 151, HEARINGS OF THE SENATE BUSINESS AND INDUSTRY COMMITTEE, JANUARY 31, 1975

Madame Chairperson, Senate Bill 150 attempts to adjust an imbalance in the calculation of worth of property held by firms regulated by the Public Service Commission. It has our support.

Specifically, the bill would allow the commission to assign a value to property that would nat exceed the original investment less depreciation. Thus we would see that a facility constructed a number of years ago would be valued at its original cost and not at the price that would have to be paid.

For too many years allowing utility companies to assign current values to older facilities has resulted in a mammoth tax avoidance for them, a massive profit above what the law allows and an overcharge for consumers of utility services.

The original cost standard is right in logic, right in principle and right in affording a simple, rational way to evaluate investment of utility companies.

The Montana State AFL-CIO feels that Montana needs such a law so that we can begin to get a true picture of utility company earnings, a true measure of the taxes they owe and a share of the revenue that the state and its various municipalities are rightly due.

Senate Bill 151 implements that value system as the means by which utility company property will be assessed and placed on the tax rolls, right along with the property of every other property owner.

That will be a move in the direction of tax justice, a concept for which the AFL-CIO both nationwide and statewide has been committed for many, many years. Our 1973 Convention passed a resolution supporting the "original cost" concept, and I have submitted it to the committee for its information.

We support both Senate Bill 150 and 151 for that reason. Taxes are the union dues of society . . . the amount of money we must pay to enjoy the priveleges of residence in this state and its municipalities. And we all must pay what we owe. Perhaps, not always cheerfully, but we must pay none the less.

These bills close a notable loophole in Montana law and are worthy of the committee's approval.

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Senator Kolstad asked Mr. Clark if he could give him some examples of coercion since that was the key work in his testimony.

Mr. Clark replied that he could not. He did not believe that a person being coerced would stand up and admit it.

Vice-Chairman Devine thanked the people who gave testimony and returned the chair to Senator Regan.

Chairman Regan continued the meeting with further discussion on Senate Bill 150.

Senator Towe moved that the bill do pass.

Senator Rosell moved it do not pass.

Senator Devine stated that there are five new men on the Public Service Commission and through their testimony I assume all were in favor of the bill. Senator Devine was opposed to substitute motion.

Senator Rosell stated that it is an unrealistic way to decide the rates.

Chairman Regan stated that it allows them to decide it does not dictate to them. The Public Service Commission prior to 1900, used the fair value system. In 1944 the Supreme Court reversed it.

Senator Rosell moved that as a substitute motion the bill be amended. Page 1, line 18 the under scored portion be stricken starting with the word "provided and ending with the word "depreciation" on line 20.

Chairman Regan called for a roll call vote. Motion failed with the exceptions of Senators Rosell, Kolstad, and Hazelbaker.

Senator Towe moved that Senate Bill 150 do pass. All were in favor with the exceptions of Senators Rosell, Kolstad, and Hazelbaker.

Chairman Regan then brought Senate Bill 108 up for discussion.

Senator Rosell moved that the title be amended and the language "and rural electrical co-operative and rural telephone co-operatives be inserted after the word "utilities" on line 6.

Senator Towe explained that by inserting this wording it would change nothing.

Senator Rosell withdrew her motion to insert new language in the title.

Senator Greely moved that on line 11 the word purposes be stricken and line 12 strike "and" and insert "for", line 13, following "consideration" insert "for", line 13, following "contributions," insert "for", line 14 following "and" insert "for", line 14, strike "for whatever purpose"

Senator Towe moved that the Committee recommend Senate Bill 108 do pass as amended.

Senator Regan asked the Committee if they thought it would help to insert the section. She then moved to insert the language "pursuant to title 70, R.C.M. 1947", to be inserted on page 1, line 18.

Senator Towe moved to the amendment on line 18. All were in favor.

Senator Towe then moved to pass Senate Bill 108 as amended. All were in favor.

ADJOURN: There being no further business Chairman Regan adjourned the meeting at 12:45.

Pat Regan, Chairman

STANDING COMMITTEE REPORT

February 1 19 75

MR. PRESIDENT

We, your committee on Business and Industry

having had under consideration ... Senate Bill No. 150

A BILL FOR AN ACT ENTITLED: "AN ACT TO PERMIT THE PUBLIC SERVICE COMMISSION TO VALUE PUBLIC UTILITY PROPERTY AT ANY LEVEL WHICH DOES NOT EXCEED THE ORIGINAL COST OF THE PROPERTY LESS DEPRECIATION: AMENDING SECTION 70-106, R.C.M. 1947."

Respectfully report as follows: That Senate Bill No. 150

DO PASS

Pat Regan Chairman.

STATE PUB. CO.
Helena, Mont.

BUSINESS AND INDUSTRY COMMITTEE

44 Legislature

Bill No.	Subject Matter	Date In	Sponsor	Hearing Date	Committee Action	Date Out
SB 150	PSC To Set Value On Public Utility Property	2/14/75	Towe	2/17/75	BE CONCURRED IN	2/19/75
SB 215	To Amend Montana Consumer Loan Act	2/15/75	Lynch	3/7/75	BE CONCURRED IN	3/7/75
HB 684	Eminent Domain Laws	2/15/75	Wolfe	2/24/75	AS SO AMENDED WITHOUT RECOMMENDATION	2/25/75
HJR 62	Requesting Federal Government Policy-Makers To Consider Needs Of People	2/15/75	Richards	2/24/75	AS SO AMENDED DO PASS	2/24/75
SJR 18	Requesting PSC To Expand Study Natural Gas	2/20/75	McOmber	3/7/75	BE CONCURRED IN	3/7/75
SB 296	Sale Of Gasoline On Any Basis Other Than Gross Volume	2/21/75	Lynch	3/7/75	BE CONCURRED IN	3/7/75

BUSINESS AND INDUSTRY COMMITTEE

February 17, 1975

The meeting of the Business and Industry Committee was called to order this date, at 10:30 A.M., with Chairman Shelden presiding. All members were present.

HB 426....This bill had originally been scheduled for hearing on this date,but was postponed to be heard on February 19. However, apparently a number of people did not know of the change and came from various places in Montana to hear the bill, so Chairman Shelden allowed them to testify regarding HB 426 at this hearing.

Robert Jaeb, Credit Bureau of Helena, testified as an opponent to HB 426. Mr. Jaeb said he felt that the bill was repitious since the Fair Credit Reporting Act completely covers the same contents, only on a national scale. He said the bill confuses many of the areas that are covered under the federal law, and that the FTC regulates this act and he could see no reason why the State Dept. of Business Regulation should undertake the expense of regulating the industry also. Mr. Jaeb passed out literature regarding this matter to the members. This literature is attached hereto.

Hugh Spall, Credit Service Company of Great Falls, Montana, also testified as an opponent to HB 426. He said the bill conflicts with the Fair Credit Reporting Act, especially with clauses pertaining to investigative reporting. Mr. Spall, furthur testified that the Federal Trade Commission already supervised credit and the bill was unnecessary.

Other opponents who submitted written testimony, but did not testify are: Gil Koch, Credit Bureau of Missoula; C.B. Schwartz also of the Credit Bureau of Missoula; Vernon D. Sedlacek, Credit Bureau of Havre. Their statements are attached hereto.

SB 150...Senator Towe, sponsor, explained the bill and the need for it. He said Montana was one of the few states that still used this system, and that it was impossible to determine the true rate of return, and the depreciation. Senator Towe said the actual returns of the Montana Power Company, from a study made two years ago showed a twenty-two percent rate of return, but that the Power Company showed a smaller rate on their reports. He said that the Public Service Commission does regulate rates in general practice, and they may ascertain property values, but this bill would allow the PSC to determine rates according to value not exceeding the original cost of the property, and depreciation would not be taken into consideration. He further said that the Company would be allowed to make a guaranteed profit.

Clyde Jarvis, Montana Farmers Union, submitted his written testimony, which is attached hereto. Mr. Jarvis was a proponent to SB 150.

Bryant Hatch, representing F.A.I.R., testifed briefly as a proponent to this bill, expressing his complete agreement with Senator Towe's testimony.

Michael Pichette, Democratic Party, testified as a proponent to SB 150 and SB 108. Mr. Pichette said the consumer does not mind paying a proper profit to the Power Company, but that the method of determining the rates needed to be changed, and that these bills would provide a way to do that.

Everett Shuey, Montana Power Company, testified as an opponent to SB 150. A copy of his testimony is attached hereto.

Gene Phillips also testified as an opponent to this bill. He said Mr. Shuey's testimony was exactly the way he felt and had very little more to add.

Earl Garrison, Great Falls Gas Company, testified as an opponent to SB 150, and his testimony is attached hereto.

Jack Buckley, representing Mountain Bell, testified briefly as an opponent to this bill, also. He said this bill would greatly understate the profit value of today. He said they are allowed a rate of return if they can make it, and said that he hoped the committee members would take into consideration all of the testimony given by the other opponents to this bill.

Peter Pauly, representing the Montana-Dakota Utilities, said he endorced the other opponents' views regarding this bill, and urged the members to do not pass this bill.

Senator Towe, in closing, introduced Gordan Bollinger of the Public Service Commission, who had just arrived at the hearing, to testify at this time. Mr. Bollinger said SB 150 would be a good bill for the PSC. He said it would allow them to set rates by giving them a mathematical formula to go by.

Senator Towe said they were talking about a guaranteed rate of return. He said the PSC can be taken into court if need be; if the utility company thought they didn't get a fair rate, they did have recourse. This bill allowed flexibility and would provide a fair rate of return. Questions were asked of Senator Towe regarding the rate of profit allowed, and replacement values on property. Rep. Richards asked Gene Phillips if North Dakota had the fair value system, and Mr. Phillips replied that they did; Rep. Richards then asked if they were still operating, and Mr. Phillips answered in the affirmative. Rep. Richards pointed out that there was a possibliity that the rate of return would be even higher for the utility companies, and inquired of Mr. Phillips if he would object to that.

SB 108...Senator Towe, sponsor, explained this bill and the need for it; he said advertising by the utility companies would not be considered a cost of producing electricity. Senator Towe said since Montana Power had a monopoly in Montana, it seemed unnecessary to advertise, unless it was for conservation of energy and safety. He supplied the members with charts regarding the advertising costs of Montana Power, which showed the Company spent half a million dollars in advertising; and a great deal more was spent in the Havre area in comparison to other areas, as another form of utility had been trying to get established in that area during the past year. Senator Towe, further said he felt that the rate payer should not have

MONTANA HOUSE OF REPRESENTATIVES

Business and Industry Committee

Hearing -- Senate Bill 150

Monday, February 17, 1975

Testimony by

Clyde Jarvis, President
MONTANA FARMERS UNION
750 6th St. S.W., Great Falls, Montana

I am Clyde Jarvis, president of the Montana Farmers Union, a statewide farm and ranch organization of approximately 8,000 family members, with headquarters in Great Falls.

Not only am I here today to speak for agriculture -- because our 8,000 members are all consumers and farmers and ranchers are the largest single group of consumers in the state -- but also I appear as a member of the board of directors to speak for the Consumer Affairs Council in this state.

Montana Farmers Union's interest in affairs of consumers is long-standing, as evidenced by our support and affiliation over the years with the Consumer Federation of America.

Our organization was represented at the first general meeting for consumers in Montana here at the Capitol building a few years ago and we were prime movers in the formation of the Consumer Affairs Council.

Speaking for both organizations, I strongly support Senate Bill 150 to permit the Public Service Commission to value public utility property at any level which does not exceed the original cost of the property.

This measure could bring some rationality to utility rates that is desperately needed and definitely justified.

Not only are farmers and ranchers major consumers of power, but also 40 per cent of Montana's population is rural and therefore we have a great concern with the ever-growing disparity in energy costs.

A few years ago, I appeared before the Montana Public Service Commission to testify as the then president of the Consumer Affairs Council in what I described before that regulatory body as "a desperate attempt to provide some accumulated opposition to such proposals for utility rate increases" as the commission had before it at that time.

What has happened since is known to all of us -- despite the widely publicized and well-established profitability of the Montana Power Company, it has been granted substantial increases in rates.

I have spoken out for the Montana Farmers Union statewide and predicted, ". . . the consumers and taxpayers of Montana will not take anymore -- they've had it."

I view this hearing today on Senate Bill 150 as another step in the legislative action to confirm that prediction.

It is not only the cost to individual farmers and ranchers and homeowners of all types, but also the consumer-taxpayer responsibility to pay added bills for other public institutions, governmental units, schools, hospitals, people on welfare, and so on, which brings this statewide insistence for change in determining utility rate base.

Senate Bill 150 would put a stop to the notorious "fair value" situation and merely put Montana more in line with the systems presently used in 29 other states and the District of Columbia. I believe it is significant the overwhelming majority of those states switched to their methods from a situation similar to that existing in Montana at this time.

It also is noteworthy that utility profits have been significantly higher in Montana and the other 11 so-called "fair value" states.

And, Montanans apparently suffer disproportionately among such states. For instance, evidence has been entered and testimony recorded in rate increase hearings, that the Montana Power Company, the principal utility in our state, consistently has the highest or one of the highest net profit levels of the hundreds of utility firms in the nation.

I believe that is because Montana Power Company enjoys the most profitable overcharging arrangement of any utility in the nation.

Senate Bill 150 has the potential to correct that inequity to the ratepayers of Montana and at the same time assure Montana utilities of the same fairness existing in the 29 other states and the District of Columbia which utilize procedures similar to what this measure proposes.

The Montana consumers and taxpayers whom you represent can only benefit by this legislation. They will be relieved of some of the overcharge in the rates they pay for power.

The bill before this committee today is justified and necessary. Montana and Montanans have been held in a colonial-type subservience by such monied corporate advocates as the utilities for a century.

I hope and believe that by your consideration and disposition of Senate Bill 150, I and other lobbyists and citizens of this state will be able to mark you as a "pro-people" Legislature.

The farmers and ranchers of Montana and all other consumers and taxpayers have struggled vainly for years, with some small amount of expertise and an even smaller amount of funds to combat the inequity aimed at in Senate Bill 150.

We have appealed in vain to the regulatory agencies and the courts and today we return to you who write the laws to bring us justice.

To that end, I urge you to choose "people power" and not "company power" and give your resounding approval to Senate Bill 150 and to provide the impetus necessary to carry it through this session of the Legislature.

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STATEMENT OF EARLE E. GARRISON

GREAT FALLS GAS COMPANY

GREAT FALLS, MONTANA

IN OPPOSITION TO SENATE BILL 150

February 17, 1975

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...les and Gentlemen:

...ate Bill 150 proposes to change the existing method of determining the ... base of a utility from so called "Fair Value" to Original Cost-...reciated. One method "Fair Value" has to be determined the other could ...ily be obtained from our records.

...n we as a gas utility find it necessary to go before the Public ...vice Commission seeking rate relief, the Commission has the respon-...ility of determining our rate base, examining our operating expenses ... establishing a fair rate of return. If our operations and the costs ...those operations, meet with their approval they apply their determined ... of return against their determined rate base to provide us with ...lity Operating Income.

...our Operating Income we then pay the interest charges on money we ...t borrow and to pay off the interest and budgeted principal on our ...st Mortgage bonds.

...er those costs are met we then use a portion of the remainder to pay ... dividend to our stockholders with any left over being invested back in ... company in retained earnings.

...passing their version of this bill the Senate deleted the requirement ... depreciation and thus propose to permit the Commission to make a ...termination of how they wish to develop our rate base. This authority ... Commission has at this moment.

This bill could just as easily specify that rate base would be determined ... the number of meters we have in service, or the number of customers we ...rve or the number of left handed golfers in Cascade County. Whatever ... rate base is determined to be the Commission must then develop a rate ... return that will permit us to receive Operating Income sufficient for ... to continue doing business.

For example: if after a public hearing the Commission determined that my Company's rate base was $5,000,000 and it was necessary that we be permitted an Operating Income of $320,000 then our rate of return would be

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6.4%. By a similar computation if the Commission determined that our rate base was only $5,000 then our rate of return would have to be 64% to provide us the necessary operating income.

The last time we received rate relief from the commission was under their Order #4069 issued in September of 1972. Since that time we have been faced with drastic increases in our cost of borrowed money, escalating labor costs, cost of materials and supplies, vehicles and just about everything else that we come in contact with.

We are one of those utilities that is going to be forced to petition the Commission for relief in order to be able to continue doing our job of distributing natural gas to our customers in Great Falls.

Arriving at the end result, Utility Operating Income, can be achieved in many ways but regardless how you get there it takes expertise to do so. If you are determined to do away with "Fair Value" and the development of some other formula I can assure you that you will be placing an undesirable burden on the Commission and you will be forcing the utilities of this state to be constantly appealing to the Commission for rate relief.

Senate Bill 150 will not be the cure all that its authors think it will. In my opinion it will create a log jam of companies seeking relief like this Commission has never dreamed of and the pressure will continue to mount as long as the present inflationary spiral continues.

S. B. 150

Mr. Chairman and members of the Committee:

I am Everett Shuey, representing the Montana Power Company in opposition to Senate Bill No. 150, introduced by Senator Towe, and designed to change the present method of rating public utility property.

Present law provides that the Public Service Commission shall establish the fair value of a utilities property for rate making purposes by taking into consideration:

First -- the original cost of the property

Second -- The original cost of the property less any depreciation charged against it.

Third -- Reproduction cost new less depreciation -- which is an estimate of what it would cost to replace theproperty today -- less any depreciation charged against it.

and Fourth -- any other element of value which the commission may avail itself of in making a revaluation of the property.

After considering all of these factors, the Public Service Commission then permits the company, or rather limits the company, to a rate of return based on the fair value of its property.

In the case of the Montana Power Company, the PSC found in their last rate case in 1972, that Montana Power should be permitted a return on their electric properties of 6.48% and on their gas properties of 6.6%.

I want to emphasize that this is a permitted rate of return -- and not a guaranteed rate of return. This is the rate which we are allowed to make on the fair value of our property which is used and useful for the convenience of the public.

Senator Towe, in S.B. 150 seeks to amend the present law on fair value by limiting the power of the Public Service Commission in establishing the level at which public utility property may be valued for rate making purposes to the original cost of the property.

Limiting the PSC to using only the original cost of a utilities property in establishing rates will have an adverse effect on every utility's ability to raise money for operating costs and new construction at reasonable interest rates.

The present fair value rate base is far more reasonable and appropriate during this inflationary period of increasing prices, wages, taxes and interest.

A change in the law, as radical as proposed by this bill will create doubt and uncertainty in the minds of people who lend money to utilities and who buy their debentures and bonds.

To assume that changing the rate base will automatically bring lower rates to consumers is absolutely untrue. All S. B. 150 will do is create uncertainty and confusion, and in the end could spell higher rates for the consumer rather than lower rates.

Thank you.

There was further discussion regarding the reports given to businesses, and the amendments needed for HB 426, and it was determined that everyone would be satisfied with the removal of "investigative consumer report" from section 6.

HB 590...Rep. Kimble, sponsor for this bill, explained the bill. He said this bill deals with removing the ten percent of security from the responsibility of the contractor. He stated that the main proponent for this bill was not available at this time, as he was on vacation. There were no other proponents, nor any opponents to this bill.

A question and answer period followed regarding parts of the bill, and Rep. Kimble explained that in the past a smaller contractor could not afford to tie up too much money, because if something happened, it would mean that they would forfeit this ten percent. He then went on to explain, that if the job were completed, the bond was no longer carried. This bill would provide a means whereby the small contractor could leave it to the municipality to decide what they wanted to use, be it a bond, certified check or whatever in lieu of a bond.

The following action was taken by the committee:

HB 590...Rep. Fagg moved to DO PASS HB 590. This motion passed unanimously.

SB 150...Rep. Quilici moved that this bill DO PASS. This motion passed, with Rep.'s Fagg, Tropila and Fabrega voting NO.

SB 108...Rep. Fagg made a motion to adopt the proposed amendments to this bill. This motion passed unanaimously.

Rep. Vincent moved the bill DO PASS AS AMENDED. This motion passed, with Rep.'s Quilici, Tropila, Fagg, Aageson, Fabrega and Casey voting NO. The amendments to this bill were as follows: on page 1, section 1, lines 11 and 12, following "purposes,", "except advertising which encourages conservation of energy and FOR product safety, and" was struck; and inserted was "for". Also on page 1, section 1, line 19, following "1947.", "This act shall not apply to advertising which encourages the conservation of energy, product safety, or informs the public of the availability of alternative forms of energy." was inserted.

There being no more time, the members adjourned, to continue the meeting at 7:30 P.M. of this date.

The meeting of the Business and Industry Committee resumed at 7:30 P.M., with Chairman Shelden presiding. All members were present, with the exception of Rep.'s Williams, Wolfe, Fagg and Wood.

The following action was taken by the committee:

HB 557...Rep. Bradley moved the bill DO PASS AS AMENDED. This motion passed unanimously. A copy of the amendments is attached hereto.

SENATE BILL NO. 150

INTRODUCED BY TOWE, REGAN, NORMAN, BLAYLOCK, BROWN

A BILL FOR AN ACT ENTITLED: "AN ACT TO PERMIT THE PUBLIC SERVICE COMMISSION TO VALUE PUBLIC UTILITY PROPERTY AT ANY LEVEL WHICH DOES NOT EXCEED THE ORIGINAL COST OF THE PROPERTY ~~LESS DEPRECIATION~~; AMENDING SECTION 70-106, R.C.M. 1947."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 70-106, R.C.M. 1947, is amended to read as follows:

"70-106. Power of commission to ascertain property values. The commission may, in its discretion, investigate and ascertain the value of the property of every public utility actually used and useful for the convenience of the public. The commission is not bound to accept or use any particular value in determining rates, provided that if any value is used, such value may not exceed the original cost of the property ~~less--depreciation~~. In making such investigation the commission may avail itself of all information contained in the assessment rolls of various counties, and the public records of the various branches of the state government, or any other information obtainable, and the commission may at any time of its own initiative make a revaluation of such property."

-End-

REFERENCE BILL